

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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In the Matter of the Petition of Xcel Energy to
Display Unbundled Transmission and
Distribution Costs on Customer Bills

ISSUE DATE: August 8, 2001

DOCKET NO. E-002/M-01-166

In the Matter of the Petition of Otter Tail Power
Company to Display Unbundled Transmission
and Distribution Costs on Customer Bills

DOCKET NO. E-002/M-01-234

DOCKET NO. E-999/CI-01-1127

In the Matter of an Investigation into Informing
Customers of the Costs of Generation and
Delivery of Electricity

ORDER DENYING PETITIONS AND
INITIATING INVESTIGATION

PROCEDURAL HISTORY

On February 1, 2001, Northern States Power Company (NSP) d/b/a Xcel Energy (Xcel) petitioned for authorization to display the cost of its electric transmission and distribution on customer bills.¹ This matter was assigned to Docket No. E-002/M-01-166.

On February 16, 2001, Otter Tail Power (OTP) petitioned for authorization to display the cost of its electric generation, transmission and distribution on electric service bills. This matter was assigned to Docket No. E-002/M-01-234.

On March 12, 2001, Minnesota Power commented on Xcel's proposal, supporting the effort but expressing caution about Xcel's functional unbundling method.

In April, the Department of Commerce (the Department) filed comments opposing Xcel's and OTP's proposals. Instead, the Department recommended referring the matter of establishing and promulgating unbundled cost information to a new state-wide docket.

¹Xcel has displayed generation cost information on its bills since last November. In the Matter of NSP Petition to Display Unbundled Generation Costs on Customer Bills, Docket No. E-002/M-00-791 ORDER AUTHORIZING DISPLAY OF OVERALL AVERAGE GENERATION COSTS ON CUSTOMERS' BILLS AND OPENING AN INVESTIGATION INTO DISCLOSURE OF ENVIRONMENTAL INFORMATION (October 27, 2000). Xcel's bills currently do not display transmission or distribution costs.

The Office of the Attorney General's Residential and Small Business Utilities Division (OAG-RUD) also commented on Xcel's proposal. OAG-RUD asked that the cost information be presented in a more-accessible table format, and that consumers be advised that the displayed costs would be based on averages and may not correspond to a customer's actual bill.

On April 23, 2001, Xcel replied to the Department's and OAG-RUD's comments. While Xcel disagreed with various particulars, it acknowledged that putting cost information on a customer's bill that did not correspond to the amount of the bill might provoke confusion.

On April 23, 2001, OAG-RUD replied to the Department's comments. Among other things, the OAG-RUD agreed on the value of establishing a uniform state-wide approach to unbundling bills.

On May 16, 2001, OTP replied to the Department's comments. While OTP disagreed with various particulars, OTP acknowledged the merit of establishing a state-wide method for establishing costs, and agreed to participate in any efforts to establish such a method. On this basis, OTP did not oppose the Department's recommendation to reject OTP's initial proposal.

On June 27, 2001, the Minnesota Chamber of Commerce filed comments supporting the initial petitions and urging the Commission not to delay the dissemination of more cost information to consumers.

The matter came before the Commission on July 12, 2001.

FINDINGS AND CONCLUSIONS

I. Background

The traditional electricity utility performs at least three functions: generation, transmission, and distribution. Generally, generation consists of creating different electrical charges at different points, and establishing a circuit through which a current would flow between these points; the current could then be harnessed to do work. Generally, transmission consists of extending the circuit over relatively long distances at relatively high voltage for subsequent distribution. Generally, distribution consists of extending the circuit over relatively short distances at relatively low voltage for consumption.² The price customers pay for electricity reflects the cost of performing each of these functions.

²See the Federal Energy Regulatory Commission's Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Docket No. RM94-7-001; Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities, Docket No. RM95-8-000, 75 FERC 61,080, ORDER NO. 888 FINAL RULE, FERC Stats. & Regs. ¶ 32,514 at 33,145 (April 24, 1996) (Order 888); In the Matter of the Informal Filing and Request for Technical Conference by Northern States Power Company Regarding Electric Cost-Separation Methods, Docket No. E-002/M-98-1878, Office of Administrative Hearing's Summary of Proceedings (April 14, 1999).

Historically, an electric utility would serve customers by bundling these functions together, and the price for electricity was designed to reflect the aggregate cost of the three functions. In such an economic environment, there was little value to identifying the cost of each function individually.

But electricity industry restructuring may change this environment.³ Today electric energy may be generated by a non-rate-regulated company and then transmitted and distributed by the rate-regulated utility. The day may come when retail customers will have a choice of energy providers. Thus, a customer may benefit from learning how much of his bill is attributable to the transmission function, generation function and distribution function, respectively.

II. Analysis and Commission action

All commentors and both utilities endorse the idea of educating consumers about the various costs of providing electricity.

But many commentors also express concerns about the specifics of Xcel's and OTP's filings. They are not in agreement about –

- the level of detail to incorporate into the cost calculations, in particular regarding the number of customer classes for which a utility should calculate separate cost information;
- how to allocate costs among customer classes;
- how to attribute costs to the generation, transmission and distribution functions, respectively;⁴
- the best data to use for these calculations; and
- the best way to communicate the resulting information to customers.

As a consequence, the commentors express concern that Xcel's and OTP's petitions would result in customer confusion and frustration. Ultimately Xcel agreed that its proposal could result in customer confusion, and OTP did not oppose the Department's recommendation to reject the filings and establish state-wide methods for addressing these concerns.

While the Chamber of Commerce did not dispute the concerns raised by other commentors, it did express concern about delaying the provision of information to consumers.

³A more detailed summary of the changing dynamics of the electricity industry appears in Order 888, Section III ("Background").

⁴Commentors note that the Commission has approved guidelines for identifying plant used for the transmission function as distinct from the generation function or the distribution function. In the Matter of Proceeding to Develop Statewide Jurisdictional Boundary Guidelines for Functionally Separating Interstate Transmission from Generation and Local Distribution Functions, Docket No. E-999/CI-99-1261 ORDER ADOPTING BOUNDARY GUIDELINES FOR DISTINGUISHING TRANSMISSION FROM GENERATION AND DISTRIBUTION ASSETS. But the Commission has not yet applied these guidelines to any specific circumstances.

Based on the concerns raised by the commentors, the Commission will decline to grant Xcel's and OTP's petitions. Instead, the Commission will initiate an investigation of the best ways to establish the relevant cost information, and the best ways to disseminate the information to the public. In deference to the Chamber of Commerce's concerns about unwarranted delay, the Commission will ask the Department to report on the investigation's progress within 120 days of this Order.

ORDER

1. OTP's and Xcel's petitions are denied without prejudice.
2. OTP and Xcel shall meet with other parties to design a Minnesota-wide uniform approach to reasonably inform their customers of the cost of electric generation and delivery. A new docket, Docket No. E-999/CI-01-1127 In the Matter of an Investigation into Informing Customers of the Costs of Generation and Delivery of Electricity is now open for this purpose. The Department shall report to the Commission on the docket's progress within 120 days of the Order.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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